

SHREM, FUDIM, KELNER AND COMPANY LTD.

REPORT OF THE BOARD OF DIRECTORS AS AT MARCH 31, 2005

In accordance with the Securities Regulations (Periodic and Immediate Reports) – 1970, the Board of Directors is pleased to present herewith to the shareholders its report of Shrem, Fudim, Kelner & Company Ltd. (hereinafter – “the Company”) for the three-month period ended March 31, 2005 (“the period of the report” or “the quarter”, respectively). The Company and its subsidiaries will hereinafter be called the Group.

1. The Company and its Business Environment

The Company is an investment company with holdings mainly in the capital market, industry, communications and technology, real estate and infrastructures, digital printing, and commerce and services.

The Company, directly and through its investee companies, is engaged in purchasing, incorporating, advancing and developing activities and companies in the aforementioned segments. In addition, the Company is also engaged in, among other things, consulting and rendering management services to investee companies, managing a hedge fund, consulting in the area of investment banking and in consulting on and managing a number of venture capital funds.

The Group wishes to advance and develop its existing investments while continuing to implement the business strategy it adopted, at the center of which is a business and organizational focus plan along with the expansion of the Group’s overseas activities. This strategy is intended to adapt the Group’s business structure to the business environment in Israel and abroad.

The Company takes steps to identify projects with growth potential in all areas of its business activity and to exploit the managerial and financial resources of the Company and/or the Group in assisting companies in which it invests in order to realize such potential. At the same time, the Group sells off existing holdings that do not conform to this strategy and acts to expand its business in the area of investment banking and hedge fund management. The Group’s investment policy is re-assessed from time to time and may change at any time.

The Company concluded the first quarter of 2005 with net income of NIS 40.1 million, compared with net income of NIS 11.5 million in the corresponding period last year. In 2004, the Company showed net income of NIS 50.6 million.

The Company, as well as other companies of the Group declared a dividend subsequent to the balance sheet date. The Company and Leader each declared dividends of NIS 0.5 a share (for a total payment of NIS 9.1 million and NIS 20.1 million, respectively), while Polar Investments and Polar Communications declared dividends of NIS 10 million and NIS 40 million, respectively.

During the period of the report, the Company, Leader, and the private companies they control, sold securities in publicly traded investee companies (mainly of DS Securities, BSR and Kamor) for a consideration of NIS 147 million and a gain of NIS 36 million.

The market value (proximate to the publication date of this report) of Polar Investments’ current holdings in listed shares of principal investee and other companies such as, Telit, Nipson, Mind, Arel Communications, Partner, Mivnei Ta’asiya and others, amounts to NIS 519 million and reflects an excess value of NIS 347 million compared to the value of these holdings as recorded in its books as of March 31, 2005.

2. Financial Position, Sources of Financing and Liquidity

The Company's shareholders’ equity as of March 31, 2005 totaled approximately NIS 259.2 million, which constituted 59% of the total balance sheet of the Company and the private companies it controls. Shareholders’ equity as of December 31, 2004 totaled NIS 226.0 million, which constituted 54% of the total balance sheet.

The increase in the Company's shareholders' equity in the period of the report derived mainly from the Company's income in an amount of NIS 40.1 million, which was offset by the recording of the share of the Company in the translation differences mainly due to the sale of an affiliated company in an amount of NIS 7.8 million.

As of March 31, 2005, the financial liabilities (long and short-term) of the Company and private companies it controls to banks, to others and in respect of debentures less its liquid resources amounted to NIS 83 million, compared with an amount of NIS 98 million as of December 31, 2004. The decrease derived mainly from the proceeds on the sale of DS Securities, as described below.

Subsequent to the balance sheet date, the Company and Leader submitted a draft prospectus to raise an amount of NIS 63 million each by way of an issuance of debentures and option warrants.

The table below presents data from the consolidated balance sheet and the balance sheet of the Company and private companies it controls (*) (in millions of reported shekels of March 2005):

	As at March 31, 2005			As at December 31, 2004
	Consolidated balance sheet	Company balance Sheet	Balance sheet of Company and private Companies it controls (*)	Balance sheet of Company and private companies it controls (*)
Current assets	1,812.8	93.0	92.1	90.8
Investments in and loans to investee (affiliated) and other companies	745.0	362.2	319.7	301.4
Real estate	565.4	-	-	-
Fixed assets	709.4	24.3	25.8	26.0
Other assets and deferred expenses, net	112.4	-	1.7	1.8
Total assets	3,945.0	443.5	439.3	420.0
Current liabilities	1,403.9	111.5	102.4	125.7
Long-term liabilities	1,704.1	61.2	61.3	62.7
Minority interest	549.7	-	4.8	5.6
Debentures convertible into Company shares	11.6	11.6	11.6	-
Receipts on account of options issued by subsidiaries	16.5	-	-	-
Shareholders' equity	259.2	259.2	259.2	226.0
Total liabilities and shareholders' equity	3,945.0	443.5	439.3	420.0

(*) In this report, "the Company and private companies it controls" refers to the consolidated balance sheet which includes the publicly traded subsidiaries controlled directly by the Company (Leader and Shrem Fudim Kelner Technologies Ltd. (Technologies)), on the equity basis.

The major changes in the assets and liabilities of the Company and the private companies it controls are described below:

- Current assets totaled NIS 92.1 million as at March 31, 2005, similar to the amount at the end of 2004.

- Investments in and loans to investee and other companies totaled NIS 319.7 million as of the end of March 2005, compared with an amount of NIS 301.4 million at the end of December 2004. The increase derived from the share of the Company in income of investee companies (mainly Leader) in an amount of NIS 21.9 million, set off by the share of the Company in the translation differences described above.
- As described above, the liabilities of the Company and the private companies under its control, net of liquid resources, amounted to NIS 83 million, compared with NIS 98 million at the end of 2004.

3. Operating Results

General

As mentioned above, the improvement in the capital markets, the efficiency measures taken and the focusing of the Group's business strategy all contributed to the improvement in the Group's operating results and to the growth trend.

- The Company and the companies under its control showed total revenues from consulting, management and participation in the profits of funds in the period of the report of NIS 16.7 million, compared with NIS 9.5 million in the corresponding period last year, and revenues of NIS 39.3 million in the entire 2004.

The increase in revenues during the period of the report is a result of the increase in the share of the Company in management fees and participation in profits of the Sphere Fund, due to, among other things, the increase in the turnover of the Sphere Fund, and from income from participation of the Company in the income of the funds.

Revenues from Sphere Fund activity during the quarter include the share of the Company in the gains on the Fund's marketable securities in an amount of NIS 16 million.

- During the period of the report, the Company and the companies under its control had income from marketable securities in an amount of NIS 6.9 million (including gains on marketable securities from the Sphere Fund), compared with income of NIS 4.5 million in the corresponding period last year.
- The share of the Company in the income of investee companies during the period of the report amounted to NIS 29.1 million (NIS 10.2 million in the corresponding period last year), mainly deriving from the share of the Company in the income of Leader.
- Income from long-term investments amounted to NIS 5.8 million and derived from the sale of the balance of the Company's holdings in DS Securities. During the period of the report, the Company decided to exercise the PUT option it was granted, whereby it sold the balance of its shares in DS Securities for an amount of NIS 11.9 million.

As a result of the exercise of the PUT option by the Company, the non-competition commitment which had been placed on the Company and Leader was cancelled.

- Total costs and other expenses amounted to NIS 11.9 million in the first quarter of 2005, compared with NIS 9.3 million in the first quarter of 2004. The net increase in costs during the period of the report derived mainly from the increase in the provision for grants to executives and employees which are a function of the performance of the private investee companies and the consolidated results.

This was partially offset by the reimbursement of expenses incurred in respect of a legal claim, received in the first quarter (while in the first quarter of last year, the Company incurred the expenses of the same claim).

- The financing expenses of the Company and the private companies under its control amounted to NIS 2.1 million during the period of the report, similar in amount to the same period last year.

- The Company finished the period of the report with income before financing of NIS 17.5 million, compared with income of NIS 4.4 million in the corresponding period last year (an increase of 300%). The increase during the period of the report was the result of the increase in revenues discussed above and, mainly, of the share of the Company in the results of its investees (mainly Leader).
- The result of all of the above is net income for the period in an amount of NIS 40.1 million, compared with net income of NIS 11.5 million in the corresponding period last year.

The following table presents data from the income statements of the Company and the private companies it controls (*), in millions of reported shekels:

	First Quarter 2005	First Quarter 2004	Year 2004
Revenues from consulting, management and participation in profits of funds	16.7	9.5	39.3
Income (loss) from long-term investments assets etc., net	5.8	(0.3)	(1.6)
Gain on marketable securities, net	6.9	4.5	14.7
Total other costs and expenses	(11.9)	(9.3)	(36.0)
Income before financing expenses, net	17.5	4.4	16.4
Financing expenses, net	(2.1)	(2.3)	(11.3)
Income after financing expenses, net	15.4	2.1	5.1
Taxes on income	(0.2)	-	(0.5)
Gain on decline on percentage held	-	1.1	4.0
Company's equity in results of investee companies	29.1	10.2	49.1
Minority share in results of subsidiaries, net	(4.6)	(1.9)	(7.1)
Net income for the period	40.1	11.5	50.6

- (*) Data of the Company and the private companies it controls – means the consolidated statement of income in which the public subsidiaries directly held by the Company are included on the equity basis (Leader and Technologies).

The following table presents income statement data from the consolidated financial statements, in millions of reported shekels:

Consolidated	First Quarter 2005	First Quarter 2004	Year 2004
Revenues from sales, services, consulting, management and underwriting	459.3	444.9	1,819.3
Income from long-term investments, assets etc., net	95.7	28.1	159.0
Company share of results of affiliated companies, net	(6.8)	11.0	37.7
Gain on marketable securities, net	31.9	17.1	44.6
Total other costs and expenses	(459.4)	(440.8)	(1,787.2)
Income before financing expenses, net	120.7	60.3	273.4
Financing expenses, net	(38.4)	(29.1)	(140.9)
Taxes on income, net	(5.4)	(6.8)	(17.9)
Minority share in results of subsidiaries, net	(36.8)	(12.9)	(64.0)
Net income for the period	40.1	11.5	50.6

For information pertaining to the results of the Company's operating sectors, see Note 6 of the financial statements.

4. Holdings and Investments

As described above, the Group continued implementing its business strategy, in which it focuses on identifying companies and projects that have a potential to contribute to the business and cash flow of the Group, as well a potential for capital gains. This strategy bore fruit in 2004 and in the period of the report by bringing the Group back onto a growth track.

4.1 Leader Holdings & Investments Ltd. ("Leader")

Leader is a holding company whose major holdings are Polar Investments and Urdan. It also engages directly in rendering management, underwriting, and consulting services, handling securities issuances for entities interested in raising funds, and making non-banking investments in various sectors of the Israeli economy.

The Company's equity in its investment in Leader amounted to NIS 222 million as at March 31, 2005. As a result of the purchase of additional shares of Leader during and following the period, conversion of debentures and exercise of options during the period of the report, the Company effectively holds 66.4% of Leader's share capital.

4.2 Capital Market Activity

Issuances, distribution of securities and brokerage

Operations of Leader in the capital market during the period of the report continued to show a growth trend, reflected in the results of the Group's business operations, mainly in the revenue turnover from consulting, underwriting, brokerage and fund management services. During the quarter, these revenues of the Leader Group (Leader and the companies it controls) amounted to NIS 18.6 million, compared with NIS 11.7 million in the same period last year.

In the period of the report the Leader Group, through the companies Leader Issuances and Leader & Co., was involved in more than 16 public and private issuances as well as the distribution of securities, of which 8 were public issuances, and Leader Issuances served in most of them as the head manager of the underwriting consortium.

In the period of the report, the Ma'of index increased by 4.5% in real terms. In 2004, the Ma'of index increased in real terms by 21%.

The Sphera Fund

The Sphera Fund is a fund for investment in marketable securities, the volume of which as of the date of the issuance of this report was \$110 million. Sphera is managed by an entity controlled by the Company and other managers. In the period of the report, Leader invested an additional amount of \$2 million in the Sphera Fund. The Company also redeemed \$1 million of its investments in Sphera.

The Sphera Fund finished the period of the report with pre-tax income of NIS 39 million. The net dollar yield of the Fund in the period of the report was 9.3%, compared with an increase in the Tel Aviv 100 Index (in dollar terms) of 3.2% and a decline of 8.11% in the NASDAQ.

4.3 Urdan Industries Ltd. ("Urdan")

4.3.1 Areas of activity of Urdan

Urdan is a public company, the shares of which are traded on the Stock Exchange. It has direct and indirect holdings in a wide variety of industrial companies, and is also directly engaged in industrial activities.

The investment in Urdan is recorded in the books of Leader and a wholly-owned subsidiary as of March 31, 2005 at an amount of NIS 115 million (following conversion of debentures subsequent to the balance sheet date as described below, in an amount of NIS 14 million).

Subsequent to the balance sheet date, 19,283 thousand par value debentures of Urdan (series C) were converted (the share of Leader was 14,884 thousand par value) into 8,765 thousand shares of Urdan, par value NIS 1 each (the share of Leader was 6,765 thousand shares). As a result, the share of Leader in Urdan increased from 60.5% to 62%. Urdan finished the period of the report with net income of NIS 1.0 million, similar to the net income in the corresponding period last year.

The period of the report was characterized by an increase in the sales turnover of the Urdan group which amounted to NIS 198 million, compared with NIS 186 million in the same period last year, and which was accompanied by improved operating results of most of the companies of the Urdan group. This improvement derived from, among other things, an increase in market share, continued penetration into new markets by some of the Urdan group companies and by efficiency measures taken by the group.

As part of Urdan's policy of reorganizing its capital structure and reducing its financial liabilities, in May 2005, Urdan issued long-term debentures and non-negotiable option warrants for total proceeds of NIS 67 million. Most of this amount was used to reduce short-term bank credit. A private company controlled by Leader served as a consultant on this issue. See also Note 3D1 of the financial statements regarding the commitment of Leader to purchase option warrants in this issuance.

As part of the fundraising, the aforementioned debentures were given an A rating by Ma'a lot – Israel Securities Rating Company Ltd. Such a rating was also granted to the debentures (Series C) issued by Urdan in the past.

Subsequent to the balance sheet date, E.E.R. Environment and Energy Resources Company (Israel) Ltd. ("E.E.R."), a company in which the Company, Urdan, Technologies and additional entities hold a 34% share, signed a memorandum of understanding for cooperation outside of the U.S. with Duratek Services Inc. ("Duratek"), a company whose parent company is traded on the NASDAQ and which is engaged in the destruction of radioactive wastes.

The goal of the cooperation is management of projects for the handling of radioactive waste, utilizing the technology of E.E.R. and the engineering and operational expertise of Duratek. The memorandum of understanding granted Duratek a period of 60 days to assess E.E.R.'s technology during which time it could elect not to enter into the cooperative agreement. In addition, Duratek has the right to elect to participate in the project to be presented to it by E.E.R. and if it so decides, a specific agreement would be signed.

Concurrently, another memorandum of understanding was signed whereby it was agreed to cooperate on a project in the Ukraine, in respect of which an in-principle agreement was signed in June 2004. The additional memorandum of understanding relates to the incorporation of Duratek as a participant in developing the project and in drawing up the terms with the Ukrainian government.

Subsequent to the balance sheet date, the appeal which had been filed by "The Environment – the Israeli Organization for the Protection of the Environment" against the construction of the demonstration installation of E.E.R. at the Ivlin site was rejected.

4.4 Polar Investments Ltd. ("Polar Investments")

4.4.1 Areas of Activity of Polar Investments

Polar Investments, a public company whose shares are traded on the Stock Exchange, invests and manages investments in various sectors: communications and media, technology and software, real estate and infrastructures, commerce, services, and others.

Leader effectively holds 47.3% of the share capital of Polar Investments and 50% of the voting rights therein. As at balance sheet date, the net asset value of the investment of Leader in Polar Investments on the books of Leader is NIS 190 million.

Polar Investments reported income of NIS 17.2 million in the period of the report, compared with income of NIS 12.6 million during the corresponding period last year (income of NIS 46.1 million in all of 2004).

During March and May 2005, Polar Investments raised an amount of NIS 125 million in debentures and allotted 892,500 non-negotiable option warrants, exercisable into shares of Polar Investments. See also Note 3C of the attached financial statements as at March 31, 2005.

4.4.2 We present below the significant events in connection with the investments of Polar Investments during and following the period of the report:

4.4.2.1 Nipson Digital Printing Systems PLC ("Nipson")

In March 2005, as part of another issuance of shares on the AIM market in London, Nipson raised an amount of \$11 million. In addition to and as part of the issuance, Polar Communications sold (directly and indirectly) shares of Nipson for an amount of \$10 million. Upon completion of the issuance and the sale, the share of Polar Communications (indirect) in the share capital of Nipson declined to 50.7%. The financial statements of Polar Investments for the first quarter included a pre-tax gain on the issuance and sale to a third party of NIS 40 million (the share of the Company was NIS 13 million).

4.4.2.2 Partner Communications Ltd. (“Partner”)

In February 2005, Polar Communications issued an irrevocable offer to sell all of its shares in Partner to Partner for an amount of up to NIS 136 million. Concurrently, Eurocom Ltd. And Elbit Communications Ltd. (Polar Communications, Eurocom and Elbit, hereinafter – the “Sellers”) issued concurrent offers relating to their shares in Partner. The offer was subject to obtaining a number of approvals from the authorized bodies of Partner, the banks accompanying Partner, the Israeli Ministry of Communications, and the Antitrust Commissioner. Matav Investments Ltd. (“Matav”, a shareholder in Partner), was given an option to join the sale.

On April 20, 2005, the abovementioned transaction was consummated, after Matav exercised its right to join the sale. In practice, Polar Communications sold NIS 3.4 million in Partner shares of the NIS 4.2 million in Partner shares that it owned, at a price of NIS 32.22 per share, for total proceeds of NIS 110 million.

As a result of the sale, Polar Investments expects to record a pre-tax gain of NIS 93 million in the second quarter of the year (the share of the Company is NIS 33 million).

4.4.2.3 Telit Communications PLC (“Telit”)

In February 2005, Telit announced its intention to issue shares on the AIM market. In April 2005, Telit announced consummation of the issue in which it raised an amount of \$44 million, at a company value of \$115 million (after money). As a result of the issue, the share of Polar Investments in the share capital of Telit declined to 51%. The financial statements of Polar Investments for the second quarter of the year will include a gain on the issue to a third party in an amount of NIS 75 million (the share of the Company was NIS 24 million).

4.4.2.4 Polar International Real Estate (1997) Ltd. (“Polar International Real Estate”)

In March 2005, Polar International Real Estate, a subsidiary of Polar Real Estate Ltd., submitted to the Israel Securities Authority a draft prospectus for an initial public offering of its shares and other securities, as well as to have them listed for trade on the Tel Aviv Stock Exchange. On May 19, 2005, Polar International Real Estate received a permit from the Israel Securities Authority and the Tel Aviv Stock Exchange to publish the aforementioned prospectus.

4.4.2.5 Reshet – Noga Ltd. (“Reshet”)

In April 2005, Reshet, a company in which Polar Investments has a 36% share (indirect), won a tender for the operation of commercial television broadcasts on Channel 2, for a ten year period commencing on November 1, 2005.

4.4.2.6 Maximedia Street Advertising Ltd. (“Maximedia”)

In May 2005, an agreement was signed with Orek Ltd. (which holds 50% of Maximedia; “Orek”) whereby Orek would provide funding to Maximedia in an amount of NIS 1.5 million. Subsequently, Polar Communications will acquire Orek’s entire holdings in Maximedia for no consideration. As a result, Maximedia will become a wholly-owned subsidiary of Polar Communications. Consummation of the transaction is contingent upon the approval of the Commissioner of Restrictive Trade Practices.

4.5 Technologies

- 4.5.1** In accordance with a call for funding of the Platinum Fund for an additional 8% of the total commitment, Technologies invested during the period of the report an amount of \$1.1 million (an aggregate of 68% of the commitment to the Platinum Fund has been invested).
- 4.5.2** During the period of the report, Technologies invested an additional amount of \$120 thousand in Pitango 3, on the basis of a call for funding an additional 6% of the entire commitment.
- 4.5.3** On May 8, Worldgroup Holdings Ltd. (“Worldgroup”) announced that its Audit Committee and Board of Directors approved the issuance of a full purchase offer for the shares of Robomatics Technologies Ltd. (“Robomatics”), a public company whose shares are traded on the OTC Bulletin Board, at a price of \$1 per Robomatics share. Technologies holds 250,000 par value shares of Robomatics, recorded in the books at an amount of NIS 231 thousand. Accordingly, in the event that the aforementioned purchase offer is ratified by the general shareholders meeting of Worldgroup which is scheduled to meet on May 31, 2005, and in the event that the appropriate regulatory approvals are forthcoming, Technologies expects to record a gain of NIS 1 million.

5. Major Events During and Subsequent to the Period of the Report

- 5.1** Subsequent to the balance sheet date, the board of directors of the Company resolved to distribute a cash dividend in an amount of NIS 9.1 million (NIS 0.5 per share), to be paid on June 14, 2005.
- 5.2** During the period of the report, as part of a private placement, the Company allotted NIS 10,912,500 par value debentures (Series C), convertible into ordinary registered shares of the Company, par value NIS 1, for an amount equal to the par value, such that every NIS 22.5 par value debenture principal is convertible into one share of the Company, for a total of 485,000 ordinary shares of the Company par value NIS 1, subject to adjustments (hereinafter – the “converted shares”). The converted shares will represent 2.63% of the issued and paid-in capital of the Company, assuming that the offeree converts the debentures into shares immediately following the allotment (2.26% fully diluted).

The debenture principal will be repaid in one installment at the end of the five-year period following the date of allotment of the debentures.

The debenture principal is linked to the exchange rate of the U.S. dollar and bears dollar interest of 5% per annum, which will be paid in annual installments on the 31st of March of every calendar year until redemption.

- 5.3** During the period of the report, NIS 1,000 thousand par value debentures (Series B) were converted into 125 thousand ordinary shares of the Company, par value NIS 1. Subsequent to the balance sheet date, an additional NIS 500 thousand par value debentures (Series B) were converted into 62.5 thousand ordinary shares of the Company, par value NIS 1. In view of the above, the balance of outstanding debentures as of the balance sheet date and the date of the preparation of the financial statements is NIS 12,500 thousand par value and NIS 12,000 par value, respectively, classified in the period of the report as a quasi-equity item in view of the high probability of conversion.
- 5.4** During the period of the report, an interested party in the Company exercised 129,815 option warrants (Series I) into shares of Leader.
In addition, subsequent to the balance sheet date, investors who are not interested parties in Leader converted NIS 5,646,500 par value debentures into 705,812 shares of Leader.
As of the date of the issuance of the financial statements, the Company effectively holds a 66.4% share of the issued and paid-in share capital of Leader.

5.5 In March 2005, the Israel Electric Company Ltd. announced that the agreement between it and OrLite Industries (Millennium 2000) Ltd. (a subsidiary of Urdan) would be extended for another year, until the end of May 2006, in accordance with the option granted to it as part of the agreement that was signed in the past for the supply by the latter of electricity distribution cabinets.

5.6 On March 10, 2005, Urdan signed agreements with Dorsal Raanana Ltd., a wholly-owned grandchild subsidiary of Sinal Industries Ltd., a company whose shares are traded on the Tel Aviv Stock Exchange, and a company which is not an interested party in the Company and in which the Company is not an interested party (the "Purchaser"), whereby Urdan would sell the Purchaser its rights in a 56 dunam (gross) plot of land and the buildings constructed thereon, in the old industrial zone in Netanya, upon which Urdan's foundry is located (the "property"), for an amount of \$13 million. Urdan will lease the property from the purchaser for a period of 10 years, for an amount of \$1.3 million per annum. The leasing fees for the first year will be paid by Urdan in advance, upon the consummation of the transaction.

As part of these agreements, Urdan is entitled to shorten the lease period by four or two years, or to extend it by three additional periods of 5 years each.

In addition, upon the consummation of the transaction, Urdan will provide a renewable bank guarantee in an amount of \$1.5 million to secure its obligations under the leasing agreement. The amount of the guarantee could possibly be reduced until it reaches an amount of \$0.675 million under certain circumstances, over the duration of the lease.

In addition, upon consummation of the transaction, Urdan will deposit an amount of \$1.3 million to secure payment of post-dated checks that it will deposit in trust in respect of the payments of the leasing fees for the sixth and seventh years of the lease (in accordance with the realization of its rights to shorten the leasing period, as above).

Consummation of the transaction is contingent upon receipt of approvals and the conducting of various examinations in connection with the Property, as stipulated in the agreements. The results of the partial examinations already carried out do not indicate any significant damage to the land. In the event that the transaction does not reach fruition and upon fulfillment of a number of conditions that were set down by the parties, Urdan will pay the Purchaser compensation in an amount of up to \$200 thousand.

In the event that the transaction is consummated, Urdan expects to include in its 2005 financial statements a pre-tax capital gain of NIS 38 million (NIS 25 million after tax). The share of the Company in this gain, before tax and after allocating excess cost, is expected to be an amount of NIS 2 million.

5.7 Subsequent to the balance sheet date, Leader declared a dividend distribution in an amount of NIS 20.7 million (NIS 0.5 per share) to be paid on June 14, 2005. The share of the Company in the dividend amounted to NIS 13.7 million.

5.8 On May 22, 2005, Polar Investments declared a cash dividend distribution in an amount of NIS 10 million, to be paid on June 14, 2005. The share of Leader in the dividend was an amount of NIS 4.7 million.

5.9 In April 2005, Polar Communications declared a cash dividend distribution in an amount of NIS 40 million, paid in May 2005. The share of Polar Investments in the dividend amounted to NIS 35 million.

5.10 During the first quarter of 2005, Leader sold its entire investment in Kamor for an amount of NIS 29 million. The effect of the sale on the results of Company operations during the first quarter is immaterial.

- 5.11** During the period of the report, Leader signed an agreement with BSR Engineering and Development Ltd. (the “Purchaser”), the company which exerts joint control with Leader over BSR, for the sale of all of the securities of BSR (shares, option warrants and debentures) owned by Leader, as is, for a total amount of NIS 105 million. The consideration was paid in three installments, the last of which was paid subsequent to the balance sheet date.

In addition, upon consummation of the sale, the BSR shareholders agreement from 2002 expired, the entitlement of Leader to receive management fees from BSR expired commencing in April 2005, the right of Leader to appoint directors to the BSR board expired, and the resignations of the directors appointed by Leader to the BSR board went into effect.

In respect of the abovementioned transaction, Leader reported a pre-tax gain of NIS 29 million in the financial statements of the period of the report (the share of the Company was NIS 20 million).

- 5.12** Tenne – Fund for Investment in Kibbutz Industries, Limited Partnership (“Tenne”)

Tenne is a fund for investment in Kibbutz industries, which raised an amount of \$24 million. The Company and companies under its control undertook to investment amounts of \$0.5 million and \$2.5 million in Tenne. During the period of the report, the Company and companies under its control invested amounts of NIS 0.2 million and NIS 1 million, respectively. In addition, Leader holds 3% of the general partner of the Fund.

- 5.13** In April 2004, a company controlled by the son-in-law of the chairman of the board of the Company (hereinafter – “Sentor”) joined the founders’ agreement of Sphere. Sentor was allotted special shares in the Fund manager and in the general partner of Sphere, which shares do not grant Sentor voting rights or the right to appoint directors, rather only equity rights.

According to the terms of the special shares, the special shares grant Sentor 5% of the equity rights commencing on April 1, 2005, an additional 5% of the equity rights will be granted to Sentor commencing on April 1, 2006, and an additional 5% of the equity rights commencing on April 1, 2007. As a result, the equity rights of the Company and two other parties in the Fund manager and the general partner declined to 47.5%, 23.75% and 23.75% respectively in April 2005, and will be diluted to 45%, 22.5% and 22.5%, respectively in April 2006, and to 42.5%, 21.25% and 21.25%, respectively, in April 2007. The Company continues to hold 51% of the management shares.

The agreements between the Fund manager and the Company and among the three founders of the Fund, including Sentor (herein – the “Founders”), regulated the employment terms of the Founders as well as the equity and managerial rights and obligations of the Company and the Founders. The employment terms of each of the Founders are identical. The Founders undertook to render consulting and management services to Sphere Fund entities for a period that would not end prior to January 1, 2008.

On May 18, 2005, an extraordinary general shareholders meeting ratified the terms of the agreement with Sentor as described above.

See also Note 5D of the financial statements regarding the employment of the son of the CEO of the Company.

6. Contributions

The Company considers contribution to the community to be an important part of its business activity and therefore it contributes together with its parent company, in equal portions, in the framework of the DS Fund, which is a registered association recognized as a not for profit entity. The main aim of the association as was determined upon its establishment is as follows: “to establish a fund in Israel for making contributions to charity organizations and activities, to institutions, to the needy and indigent, to educational, sport, art, science and research institutes, student scholarships, health, welfare and medicine”. In the period of the report, the amount of contributions of the Company and the consolidated entity were NIS 125 thousand and NIS 328 thousand, respectively.

7. Disclosure pertaining to the Internal Auditor

There were no significant changes during the period of the report in respect of the disclosure pertaining to the internal auditor, in relation to the information provided in the report of the board of directors of the Company that was included in the Company's periodic report for 2004. During the period of the report, the Audit Committee held a meeting on May 22, 2005.

8. Qualitative Report on Exposure to Market Risks and their Management

There were no material changes in the exposure of the Company to market risks and the management thereof from the description presented in the Company's annual financial statements for 2004

9. Derivative Transactions

As of March 31, 2005, a subsidiary of Urdan has "call" options for the purchase of dollars against shekels as follows: \$5.25 million at exercise prices ranging between NIS 4.45 and 4.55 per dollar, with a fair value of an asset of NIS 48 thousand, €2.5 million at exercise prices ranging between NIS 5.85 and 5.90 per euro, with a fair value of an asset of NIS 91 thousand, and €0.5 million euro at an exercise price of \$1.36 per euro, with a marginal fair value. In addition, the following was sold: \$5.7 million at exercise prices ranging between NIS 4.365 and 4.439 per dollar, with a fair value of a loss of NIS 0.4 million, €2.5 million at an exercise price ranging between 5.485 and 5.575, with a fair value of a loss of NIS 0.1 million, and €0.5 million at an exercise price of 1.254 with a marginal fair value. These transactions are for the period of up to September 30, 2005. The maximum holding of the Urdan subsidiary in derivatives was on March 31, 2004. The aforementioned transactions were intended for hedging against the exposure in the area of foreign currency supplier credit.

Another subsidiary of Urdan has open forward transactions as of March 31, 2005, as follows: the purchase of \$1.5 million with a value as of the end of the period of the report of NIS 6.75 million, and the purchase of €0.2 million with a value as of the end of the period of the report of NIS 1.1 million. These transactions are for a period of up to one year and they were intended as a hedge. Their fair value is a loss of NIS 0.1 million. The maximum holdings in derivatives of this Urdan subsidiary during the period of the report was NIS 12.4 million. As of January 10, 2005, these transactions were intended primarily to hedge against the exposure in the area of foreign currency supplier credit.

In view of the existence of dollar liabilities on the books of the Company, Leader, and the private companies they control, every so often, the companies enter into hedging transactions against exposure to changes in the exchange rate of the dollar. As of March 31, 2005, there were no such transactions open. The results of such transactions during the period was immaterial.

As of the balance sheet date, the Company, Leader, and Polar Investments had no significant transactions in financial derivatives.

In addition to the above, the Company and Leader, by themselves and through a subsidiary, are active in the "Ma'of" derivatives market through the purchase and sale of financial derivative instruments, so that the entire amount of security required for this activity does not exceed NIS 10 million for each one of them. During the period of the report, the ceiling for such exposure was increased by the Company and Leader to an amount of NIS 15 million each. The Company and Leader equally share the risks, expenses and income deriving from these activities.

10. Linkage Basis Report (in reported NIS millions):

	Financial balances			Non-financial Balances	Total
	In foreign currency or Linked Thereto	Linked to the CPI	Unlinked		
As at March 31, 2005					
Assets:					
Cash and cash equivalents	160.1	0.1	198.7	-	358.9
Marketable securities	62.2	-	221.8	-	284.0
Short-term deposits and investments	52.0	0.8	14.0	-	66.8
Current maturities and loans granted	6.3	14.9	18.5	-	39.7
Trade accounts receivable	139.0	1.1	386.7	0.4	527.2
Accounts receivable and other debit balances	42.4	25.7	70.5	52.5	191.1
Inventory and work in progress	-	-	-	345.2	345.2
Real estate	-	-	-	565.4	565.4
Long-term investments in investee and other companies	53.7	166.3	57.7	388.8	666.5
Long-term deposits and loans granted	57.6	18.2	2.6	-	78.4
Fixed assets, net	-	-	0.2	709.2	709.4
Other assets and deferred expenses	-	-	-	112.4	112.4
Total assets	573.3	227.1	970.7	2,173.9	3,945.0
Liabilities:					
Short-term credit from banks and others	132.5	286.7	429.8	10.0	859.0
Suppliers and service providers	50.1	7.3	159.2	1.8	218.4
Accounts payable and other credit balances	55.5	38.8	152.7	36.4	283.4
Advances from customers	-	-	43.0	-	43.0
Long-term credit from banks and others	137.2	489.4	553.0	46.6	1,226.2
Debentures	-	248.2	42.9	-	291.1
Debentures convertible into shares	11.0	147.2	-	-	158.2
Liability for employee severance pay, net	-	-	0.5	17.0	17.5
Deferred taxes	-	-	-	11.1	11.1
Total liabilities	386.3	1,217.6	1,381.1	122.9	3,107.9
Minority interest	-	-	-	549.7	549.7
Receipts in respect of option warrants issued in subsidiaries	-	-	16.6	-	16.6
Convertible debentures	11.6	-	-	-	11.6
Shareholders' equity	-	-	-	259.2	259.2
	11.6	-	16.6	808.9	837.1
	397.9	1,217.6	1,397.7	931.8	3,945.0

Linkage Basis Report (in reported NIS millions):

	Financial balances			Non-financial Balances	Total
	In foreign currency or Linked Thereto	Linked to the CPI	Unlinked		
As at December 31, 2004					
Assets:					
Cash and cash equivalents	105.6	2.5	103.3	-	211.4
Marketable securities	68.0	9.0	182.7	-	259.7
Short-term deposits and investments	-	0.2	9.1	-	9.3
Current maturities and loans granted	6.5	14.9	19.7	-	41.1
Trade accounts receivable	147.3	-	402.8	-	550.1
Accounts receivable and other debit balances	33.6	11.0	80.8	35.2	160.6
Inventory and work in progress	-	-	-	351.8	351.8
Real estate	-	-	-	452.2	452.2
Long-term investments in investee and other companies	53.3	153.6	50.2	494.1	751.2
Long-term deposits and loans granted	76.2	19.1	3.5	-	98.8
Fixed assets, net	-	-	0.2	710.9	711.1
Other assets and deferred expenses	-	-	-	140.1	140.1
Total assets	490.5	210.3	852.3	2,184.3	3,737.4
Liabilities:					
Short-term credit from banks and others	78.4	299.9	683.2	-	1,061.5
Suppliers and service providers	92.9	8.6	114.0	0.6	216.1
Accounts payable and other credit balances	60.4	25.9	142.4	26.2	254.9
Advances from customers	-	-	61.8	-	61.8
Long-term credit from banks and others	82.0	531.2	475.0	-	1,088.2
Debentures	-	90.8	42.9	-	133.7
Debentures convertible into shares	12.4	148.3	-	-	160.7
Receipts in respect of option warrants issued in subsidiaries	-	-	2.6	15.0	17.6
Deferred taxes	-	-	-	22.4	22.4
Total liabilities	326.1	1,104.7	1,521.9	64.2	3,016.9
Minority interest	-	-	-	483.5	483.5
Receipts in respect of option warrants issued in subsidiaries	-	-	-	11.0	11.0
Shareholders' equity	-	-	-	226.0	226.0
	-	-	-	720.5	720.5
	326.1	1,104.7	1,521.9	784.7	3,737.4

The Company wishes to thank the employees for their contribution to the Company and the shareholders for their loyalty.

Itschak Shrem
Chairman of the
Board of Directors

Yair Fudim
CEO and Member of the
Board of Directors

May 22, 2005

**Shrem, Fudim, Kelner and
Company Ltd.**

**Financial Statements
As at March 31, 2005
(Unaudited)**

Consolidated Balance Sheets**Reported amounts**

	March 31 2005	March 31 2004*	December 31 2004
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Current assets			
Cash and cash equivalents	358,914	247,577	211,371
Deposits and short-term investments	66,773	45,800	9,337
Marketable securities	283,974	227,295	259,737
Current maturities and loans receivable	39,744	6,928	41,133
Trade receivables	527,169	468,015	550,086
Other receivables	191,123	161,856	160,629
Inventory and work-in-process	345,201	331,387	351,795
	1,812,898	1,488,858	1,584,088
Real estate	565,353	535,614	452,186
Investments and long-term loans			
Investments in investee and other companies	666,503	952,566	751,222
Loans and deposits	78,494	31,829	98,770
	744,997	984,395	849,992
Fixed assets	709,353	773,610	711,056
Other assets and deferred expenses	112,374	117,046	140,078
	3,944,975	3,899,523	3,737,400
Current liabilities			
Credit from banks and others	859,039	844,600	1,061,530
Suppliers and service providers	218,384	250,866	216,105
Accounts payable and credit balances	283,390	331,020	254,897
Customer deposits	43,037	65,318	61,758
	1,403,850	1,491,804	1,594,290
Long-term liabilities			
Credit from banks and others	1,226,228	1,304,442	*1,088,223
Debentures	291,164	196,089	133,652
Debentures convertible into shares	158,122	259,662	160,661
Employee retirement benefit, net	17,525	18,226	17,591
Deferred taxes	11,061	12,937	*22,400
	1,704,100	1,791,356	1,422,527
Minority interest	549,720	420,768	483,539
Debentures convertible into company shares	11,574	-	-
Receipts from share options issued by subsidiaries	16,554	13,843	11,043
Shareholders' equity	259,177	181,752	226,001
	3,944,975	3,899,523	3,737,400

* Reclassified

Date of approval: May 22, 2005

Consolidated Statements of Operations

Reported amounts

	For the three months ended		For the
	March 31	March 31	year ended
	2005	2004*	December 31
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands		NIS thousands
Income			
Income from sales, services, consulting, management and underwriting	459,253	444,892	1,819,379
Gain on marketable securities, net	31,866	17,080	44,623
Gain on sales of investments, loans and assets, net	95,661	28,138	158,962
Company's equity in earnings of investment, net	-	11,064	37,659
	586,780	501,174	2,060,623
Costs and expenses			
Cost of sales and services	336,522	334,837	1,365,868
Selling and marketing	47,491	41,788	173,808
General and administrative	75,217	64,179	247,520
Financing expenses, net	6,775	-	-
Other expenses, net	38,429	29,115	140,934
	504,434	469,919	1,928,130
Earnings before taxation income	82,346	31,255	132,493
Taxes on income	5,449	6,840	17,872
Earnings from operations after taxes on income	76,897	24,415	114,621
Minority interest in earnings of subsidiaries, net	(36,835)	(12,914)	(64,012)
Net earnings for the period	40,062	11,501	50,609
Earnings per NIS 1 par value of the ordinary share capital:			
Basic earnings per share	2.03	0.64	2.76
Diluted earnings per share	1.95	0.59	2.48

* Reclassified

Statements of Changes in Shareholders' Equity**Reported amounts**

	Share capital	Premium on shares and capital reserves	Adjustments from the translation of financial statements of autonomous foreign investees of an affiliate	Loans to employees for the purchase of shares	Company shares held by the Company and subsidiary	Dividend proposed	Retained earnings	Total
	NIS thousands							
Balance as at January 1, 2005 (Audited)	25,360	164,850	8,670	(3,194)	(2,451)	-	32,766	226,001
Three month period ended March 31, 2005 (unaudited)								
Conversion of debentures into shares of the Company	125	802	-	-	-	-	-	927
Adjustments from the translation of financial statements of autonomous foreign investees	-	-	(7,813)	-	-	-	-	(7,813)
Dividend proposed	-	-	-	-	-	9,131	(9,131)	-
Net earnings for the period	-	-	-	-	-	-	40,062	40,062
Balance as at March 31, 2005	25,485	165,652	857	(3,194)	(2,451)	9,131	63,697	259,177

Statements of Changes in Shareholders' Equity (cont'd)**Reported amounts**

	Share capital	Premium on shares and capital reserves	Adjustments from the translation of financial statements of autonomous foreign investees of an affiliate	Loans to employees for the purchase of shares	Company shares held by the Company and subsidiary	Retained losses	Total
	NIS thousands						
Balance as at January 2004 (Audited)	24,923	162,223	4,981	(3,194)	(4,691)	(17,464)	166,778
Three month period ended March 31, 2004 (unaudited)							
Conversion of debentures into shares of the Company	375	2,458	-	-	-	-	2,833
Adjustments from the translation of financial statements of autonomous foreign investees	-	-	640	-	-	-	640
Net earnings for the period	-	-	-	-	-	11,501	11,501
Balance as at March 31, 2004	<u>25,298</u>	<u>164,681</u>	<u>5,621</u>	<u>(3,194)</u>	<u>(4,691)</u>	<u>(5,963)</u>	<u>181,752</u>

Statements of Changes in Shareholders' Equity (cont'd)**Reported amounts**

	Share capital	Premium on shares and capital reserves	Adjustments from the translation of financial statements of autonomous foreign investees	Loans to employees for purchase of shares	Company shares held by the Company and subsidiary	Retained losses	Total
	NIS thousands						
Balance as at January 1, 2004 (Audited)	24,923	162,223	4,981	(3,194)	(4,691)	(17,464)	166,778
Changes in 2004:							
Private issuance of shares, net	-	-	-	-	2,240	(379)	1,861
Purchase of Company shares by subsidiary	437	2,876	-	-	-	-	3,313
Changes in capital reserves in respect of investee Companies	-	(249)	-	-	-	-	(249)
Adjustments from the translation of financial statements of autonomous foreign investees	-	-	3,689	-	-	-	3,689
Net earning for the year	-	-	-	-	-	50,609	50,609
Balance as at December 31, 2004	25,360	164,850	8,670	(3,194)	(2,451)	32,766	226,001

Consolidated Statements of Cash Flows**Reported amounts**

	For the three months ended		For the
	March 31	March 31	year ended
	2005	2004*	December 31
	(Unaudited)	(Unaudited)	(Audited)
NIS thousands	NIS thousands	NIS thousands	
Cash flows from operating activities:			
Net earnings	40,062	11,501	50,609
Adjustments required to reconcile cash from operating activities (Annex A)	(24,902)	(102,733)	(290,295)
Net cash outflow from operating activities	15,160	(91,232)	(239,686)
Cash flows from investing activities:			
Purchase of fixed assets, real estate and amounts charged to projects under construction and other assets	(116,841)	(30,602)	(83,608)
Proceeds from sale of fixed assets and other assets	41,842	71,700	178,266
Proceeds from sale of marketable securities, short-term investments and deposits, net	(99,802)	156	91,560
Investments in investee and other companies (including through loans and capital notes), net	(27,350)	(48,617)	(143,685)
Decrease in deposits and loans granted, net	(26,482)	9,277	(42,021)
Proceeds from sale of investment in investee and other companies	214,772	85,201	367,532
Initially fully or proportionately consolidated companies and acquisition of activities (Annex C)	-	(1,445)	(1,445)
Companies formerly fully or proportionately consolidated no longer consolidated and activities sold (Annex D)	-	-	665
Net cash inflow from investment activities	(13,861)	85,670	367,264
Cash flows from financing activities:			
Purchase of treasury shares	-	-	1,861
Liability for financial lease	-	-	(53,850)
Issuance of debentures and convertible debentures in consolidated companies, net	10,913	-	-
Dividend to minority in subsidiaries	(11,036)	(11,758)	(23,603)
Receipt (repayment) of loans and capital notes, net	(76,613)	1,656	(109,918)
Issuance of marketable securities of subsidiaries	228,079	63	55,073
Receipt (repayment) of short-term credit, net	7,001	(15,229)	11,592
Purchase of shares from the minority shareholders by subsidiary	-	(236)	(959)
Repayment of debentures and convertible debentures in consolidated companies	(11,026)	(10,934)	(85,342)
Net cash outflow from financing activities	147,318	(36,438)	(205,146)
Translation differences with respect to cash balances with respect to cash balances in autonomous investee companies	(1,074)	54	(579)
Increase (decrease) in cash and cash equivalents	147,543	(41,946)	(78,147)
Balance of cash and cash equivalents at beginning of period	211,371	289,518	289,518
Balance of cash and cash equivalents at end of period	358,914	247,572	211,371

* Reclassified

Consolidated Statements of Cash Flows (cont'd)

Reported amounts

**Annex A -
Adjustments required to reconcile cash from
operating activities**

	For the three months ended		For the
	March 31	March 31	year ended
	2005	2004*	December 31
	(Unaudited)	(Unaudited)	2004
	NIS thousands		(Audited)
	NIS thousands		NIS thousands
Income and expenses not involving cash flows:			
Depreciation and amortization	14,565	14,998	55,293
Company's equity in losses (earnings) of investee companies less of dividend received, net	7,933	(6,714)	(19,897)
Minority interest in results of subsidiaries, net	36,835	12,914	64,012
Gain on marketable securities and deposits, net	(22,790)	(15,133)	(18,669)
Expenses (income) from financing activities	(3,108)	2,382	8,088
Deferred taxes, net	(2,178)	1,635	2,769
Increase (decrease) in liability for employee severance benefits, net	356	(477)	25
Loss (gain) on sale and amortization of investments and assets, net	(94,665)	(27,678)	(162,584)
Other expenses	-	374	6,782
Changes in asset and liability items			
Decrease (increase) in trade receivables and other receivables	12,801	(62,181)	(142,065)
Decrease (increase) in inventory and in land business inventory holdings, net	3,871	(22,363)	(21,927)
Increase (decrease) in suppliers and service providers	21,478	(490)	(62,122)
	(24,902)	(102,733)	(290,295)

* Reclassified

Consolidated Statements of Cash Flows (cont'd)**Reported amounts****Annex B - Non-cash transactions**

	For the three months ended		For the
	March 31	March 31	year ended
	2005	2004	December 31
	(Unaudited)	(Unaudited)	(Audited)
NIS thousands	NIS thousands	NIS thousands	
Conversion of convertible bonds into Company shares	927	2,833	3,313
Proceeds from sale of investment in investee	12,703	-	1,290
Purchase of fixed assets on credit	1,301	2,481	827
Liability to invest in other companies	-	-	527

Annex C - Initially fully or proportionately consolidated companies and acquisition of activities

	March 31	March 31	December 31
	2005	2004*	2004
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets and liabilities of the subsidiaries as at date of consolidation			
Working capital, net (exclude cash and cash equivalents)	-	2,105	2,105
Investments, long-term receivables and fixed assets, net	-	(3,550)	(3,550)
		(1,445)	(1,445)

Annex D - Companies formerly fully or proportionately consolidated no longer consolidated and activities sold.

Working capital, net (exclude cash and cash equivalents)	-	-	(664)
Fixed and other assets, net	-	-	1,228
Long-term liabilities	-	-	(100)
Minority interest	-	-	220
Balance of loans and investments	-	-	1,427
Loss on sale of issuance to third party	-	-	(1,446)
	-	-	665

* Reclassified